

**AGENDA:** April 22, 2003

**4.4**

**CATEGORY:** Consent

**DEPT.:** Community Development

**TITLE:** Subordination of CDBG Loan with  
Mid-Peninsula Housing Coalition for the  
Tyrella Gardens Apartments

### **RECOMMENDATION**

Authorize the City Manager to execute the necessary documents in order to subordinate the City's Community Development Block Grant (CDBG) loan of \$390,000 for the Tyrella Gardens apartments to other loans totaling approximately \$9.8 million.

### **FISCAL IMPACT**

None. On August 1, 2000, the City Council approved the subordination of the City's CDBG funds to \$7.4 million in other loans. Due to the many rehabilitation needs on the property, loans on this property will need to be increased to approximately \$9.8 million and the City CDBG funds would be subordinate to these loans. The CDBG funds would be subordinate to this larger dollar amount only while the rehabilitation work is under way. Once the rehabilitation work is completed, a portion of the tax credit equity (about \$2.4 million) will be used to pay down the bond debt. This will reduce the amount of the other loans to about \$7.45 million to which the City's CDBG funds are subordinate, consistent with the Council approval on August 1, 2000.

The City's CDBG funds have been provided as a deferred forgivable loan, with the condition that the property continue to be used as affordable housing. Due to the nature of this property as affordable housing, there is not enough equity in the property to support all the loans. The CDBG funds are secured against the property with the intention of preserving the future use of the property as affordable housing, not with the expectation of a monetary payback in the event of a default. The State money being used for the rehabilitation work requires a 55-year affordability period, and the City's CDBG agreements will likewise be extended to require a 55-year affordability period, consistent with the State requirement.

### **BACKGROUND AND ANALYSIS**

Tyrella Gardens is a 56-unit apartment complex for low- and moderate-income households located at 449 Tyrella Avenue. The property is 33 years old and in need of substantial rehabilitation as noted in the attached letter (Attachment 1). The property has been owned and managed by Mid-Peninsula Housing Coalition (MPHC) since 1989. The City allocated \$200,000 of CDBG funds in 1989 to assist MPHC to purchase Tyrella Gardens, which at the time was at risk of being converted to market rate housing. In 1992, the City allocated \$40,000 of CDBG funds to assist MPHC to replace the roofs on the property and in 1999 the Council allocated \$150,000 of CDBG funds to assist with rehabilitation needs on the property. The combined total of all the CDBG funding is \$390,000. The \$150,000 awarded for the rehabilitation of the property has not yet been spent. It is expected that this money will be used in the near future for predevelopment costs associated with the rehabilitation work.

such as architectural, engineering and the cost of issuing bonds. All the CDBG funds awarded for this property will be consolidated and secured under one deed of trust.

Currently, the property is financed with a HUD Section 236 mortgage with a balance of about \$433,000 as well as a State loan of about \$3.6 million. In an effort to obtain the necessary revenue to rehabilitate the property, MPHC will be paying off their HUD Section 236 mortgage and will be refinancing the property using multi-family housing revenue bonds (\$6.2 million), the existing State loan (\$3.6 million) and low-income housing tax credit equity (\$3.4 million). The City's \$390,000 of CDBG funds will be secured after the bond proceeds (\$6.2 million) and the State loan (\$3.6 million) and will be subordinate to a total of about \$9.8 million in other financing.

On August 1, 2000, the City Council authorized the subordination of the City's CDBG funds to other loans totaling \$7.4 million (see Attachment 2). During the past few years, however, many additional rehabilitation needs on the property have become apparent, increasing the rehabilitation budget from \$4.3 million to about \$6.7 million. As a result, the other loans the City's CDBG funds will be subordinate to have increased from the \$7.4 million approved by Council in August 2000 to approximately \$9.8 million.

The subordination of the CDBG funds to the \$9.8 million in other loans will, however, be a temporary situation. Once the rehabilitation work is completed, some of the tax credit equity (about \$2.35 million) will be used to pay down the bond debt (expected to occur by around September 2004). The City's CDBG funds will then be subordinate to only about \$7.45 million, which will be consistent with the Council approval on August 1, 2000. The City's CDBG funds are currently secured in the third position and will remain in the third position after the refinancing.

In order to access the tax credit equity needed for the project, MPHC will be transferring the property to MP Tyrella Associates, a tax credit limited partnership. This is a standard procedure for all tax credit projects. MPHC will be prepaying the Section 236 mortgage because this mortgage is currently secured in the first position and would need to be subordinated to the second position to allow for the bond financing. Obtaining HUD approval to subordinate this mortgage would be extremely difficult and it is unlikely that HUD would grant approval. MPHC has therefore decided to prepay this mortgage. Repayment of the City CDBG funds at this time is not an option for MPHC since the CDBG funds were a critical component in showing the State the City's commitment to having the property rehabilitated and the State allowing the refinancing of the property to take place.

When MPHC first contemplated the rehabilitation of this property, the scope of work was confined to the repair of a failing boiler system and associated piping. During the past few years, many other rehabilitation needs on the property have become more apparent and the scope of work has expanded. In particular, the problems with the heating/hot water system have been found to be more extensive than had originally been anticipated. Much of the underground piping has failed to such a degree that it is no longer reusable. Also, the building structures themselves are in need of significant seismic upgrades and the interior of the units also need significant upgrading. The Zoning Administrator approved the proposed rehabilitation work on September 13, 2001. Work is expected to begin this summer.

**AGENDA:** April 22, 2003

**PAGE:** 3

Due to the extensive nature of the rehabilitation work to be carried out and in an effort to limit the inconvenience to the tenants, MPHC will be temporarily relocating all the tenants. MPHC has prepared a relocation plan which meets State and Federal requirements. MPHC has hired a relocation specialist to work with each of the households and find them suitable temporary units. MPHC will cover all the costs associated with the relocation. Once the rehabilitation work has been completed, the tenants will be allowed to return to their units. No one will be required to relocate permanently. Upon their return, the tenants will be eligible for Section 8 vouchers which will limit their rent payments to no more than 30 percent of their income.

**PUBLIC NOTICING**—Agenda posting.

Prepared by:

Adriana Garefalos  
Senior Planner

Approved by:

Linda Lauzze  
Administrative and Neighborhood  
Services Manager

Elaine Costello  
Community Development Director

Kevin C. Duggan  
City Manager

AG/9/CAM/850-04-22-03M-E-1^

Attachments:   1.   Mid-Peninsula Housing Coalition Letter with Budget  
                  2.   City Council Minutes of August 1, 2000